STATE OF MONTANA

MILES COMMUNITY COLLEGE

REPORT ON AUDIT

Conducted Under Contract By
Janke and Van Delinder
Certified Public Accountants

Fiscal Year Ended June 30, 1978

OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MONTANA
STATE CAPITOL • HELENA

STATE OF MONTANA

MILES COMMUNITY COLLEGE

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STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59601
406/449-3122

MORRIS L. BRUSETT
LEGISLATIVE AUDITOR

DEPUTY LEGISLATIVE AUDITORS:
JOSEPH J. CALNAN
ADMINISTRATION AND PROGRAM AUDITS
ELLEN FEAVER
FINANCIAL-COMPLIANCE AND CONTRACTED AUDITS
STAFF LEGAL COUNSEL
JOHN W. NORTHEY

October 1978

The Legislative Audit Committee
of the Montana State Legislature:

Transmitted herewith is the report on the audit of Miles Community College for the year ended June 30, 1978.

The audit was conducted by Janke and Van DeLinder, Certified Public Accountants, under a contract between the firm and our office. The comments and recommendations contained in this report represent the views of the firm and not necessarily the Legislative Auditor.

The agency's written response to the report recommendations is included in the back of the audit report.

Respectfully submitted,

Morris L. Brusett

Morris L. Brusett, C.P.A.
Legislative Auditor

T A B L E O F C O N T E N T S

APPOINTIVE AND ADMINISTRATIVE OFFICIALS

BOARD OF REGENTS OF HIGHER EDUCATION

MILES COMMUNITY COLLEGE

BOARD OF TRUSTEES

ADMINISTRATION

Vernon R. Kailey	President
Judson H. Flower	Dean, Instructional Services
W. Wayne Muri	Comptroller

SUMMARY OF RECOMMENDATIONS

As a separate section in the front of each audit report we include a listing of all recommendations together with a notation as to whether the agency concurs or does not concur with each recommendation. This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply thereto as a ready reference to the supporting comments. The full replies of Miles Community College are included in the back of this report.

	Page
The College implement the fund accounting system recommended by the American Council on Education and the American Institute of Certified Public Accountants.	3
Agency Reply: Concur. See page 24.	
The College use the accrual basis of accounting.	3
Agency Reply: Concur. See page 24.	
Financial statements be prepared at least annually.	3
Agency Reply: Concur. See page 24.	
The College seek outside assistance in establishing a fund accounting system.	3
Agency Reply: Concur. See page 24.	
The Board of Trustees utilize budget amendments for the transfer of budgeted amounts between line items of the budget.	3
Agency Reply: Concur. See page 24.	
All budget amendments be approved by the Board of Trustees prior to actual expenditure of the funds.	3
Agency Reply: Concur. See page 24.	
Payroll warrants not be distributed by the same person who prepares payroll.	4
Agency Reply: Concur. See page 24.	
The President of the College should periodically review the payroll register.	4
Agency Reply: Concur. See page 24.	
The College should consider using electronic data processing equipment for processing payroll.	4
Agency Reply: Concur. See page 24.	

	Page
Payroll procedures include controls to insure that time sheets are complete.	4
Agency Reply: Concur. See page 24.	
Written employment contracts be required for all College personnel.	4
Agency Reply: Concur. See page 24.	
The College discontinue holding payroll warrants.	5
Agency Reply: Concur. See page 24.	
Business Office personnel supervise and coordinate the taking of physical inventories of the Bookstore.	5
Agency Reply: Concur. See page 24.	
The Bookstore inventory be maintained in a general ledger control account.	6
Agency Reply: Concur. See page 24.	
Closer supervision over the Bookstore operation is needed.	6
Agency Reply: Concur. See page 24.	
Student aid in the form of free use of textbooks should be accounted for at fair market value.	6
Agency Reply: Concur. See page 24.	
The College give more attention to the delinquent loan accounts.	6
Agency Reply: Concur. See page 24.	
The College make a concerted effort to locate the missing notes for the fiscal year ended June 30, 1977.	6
Agency Reply: Concur. See page 24.	
The College complete the physical inventory of property began in December 1977.	7
Agency Reply: Concur. See page 24.	
Physical inventory listing include cost or other valuation for assets.	7
Agency Reply: Concur. See page 24.	
The Board of Trustees adopt a minimum capitalization policy.	7
Agency Reply: Concur. See page 24.	

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The banks be immediately notified when check signers leave the College. 7

Agency Reply: Concur. See page 24.

The Custer County Treasurer be supplied with a list of authorized warrant signers. 7

Agency Reply: Concur. See page 24.

The College either deposit all its funds with the County Treasurer or obtain authority from the Board of Regents to maintain funds in commercial bank accounts. 8

Agency Reply: Concur with some reservations. Page 25.

The College consider utilizing the State Board of Investments as well as certificates of deposit for investment of its excess cash. 8

Agency Reply: Concur. See page 25.

Checks received be restrictively endorsed upon receipt. 9

Agency Reply: Concur. See page 25.

Business Office periodically compare food service cash register tapes to actual cash deposits. 9

Agency Reply: Concur. See page 25.

Both authorized signers review the vendor invoices, purchase orders, receiving reports, etc. at the time checks or warrants are signed. 9

Agency Reply: Concur. See page 25.

Purchase orders, requisition forms, and receiving reports be attached to the vendor's invoices and filed alphabetically. 9

Agency Reply: Concur. See page 25.

Purchase orders be required for all purchases. 9

Agency Reply: Concur. See page 25.

Receiving reports be required for receipt of all materials and be signed and dated. 9

Agency Reply: Concur. See page 25.

Improve documentation to determine student tuition. 10

Agency Reply: Concur. See page 25.

JANKE AND VAN DELINDER

CERTIFIED PUBLIC ACCOUNTANTS

JAMES N. JANKE, CPA
DALLAS W. VAN DELINDER, CPA
DARRELL E. EHRLICK, CPA

Legislative Audit Committee
of the Montana State Legislature:

We have examined the balance sheet of Miles Community College as of June 30, 1978, and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the year then ended. Except as explained in the third paragraph, our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As explained in Note 1 to the financial statements, the College does not maintain its accounting records according to the fund accounting system recommended by the American Council on Education. The accompanying financial statements were prepared in accordance with the recommended reporting standards. Because of the aforementioned deficiencies in the College's accounting records, we are unable to express an opinion on the consistency of application of accounting principles with the preceding year.

Our tests of the investment in plant were limited to a review of activity for the year ended June 30, 1978 and did not include a review of accumulated balances prior to July 1, 1977. Our tests revealed that accounting records for the investment in plant fund are incomplete and a complete physical inventory has not been taken for several years. The amounts by which the financial statements would change if fixed assets were properly accounted for cannot practicably be determined. Because of the matters described in this paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the balance sheet and statement of changes in fund balances of the Plant Funds.

In our opinion, the aforementioned financial statements, excluding Plant Funds, present fairly the financial position of Miles Community College at June 30, 1978, and the changes in fund balances and the current funds revenues, expenditures, and other changes for the year then ended, in conformity with generally accepted accounting principles.

August 28, 1978

Janke & Van Delinder

720 NORTH 30TH STREET □ BILLINGS, MONTANA 59101 □ AC 406-245-5136

MEMBERS AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

C O M M E N T S

General

In 1939 the Legislative Assembly passed legislation enabling the establishment of Custer County Junior College. In 1966 the name was changed to Miles Community College. The community college district was established in 1970 by action of the local joint High School-College Board which governed the college up to that time. In 1971 the Northwest Association of Schools and Colleges granted full accreditation to Miles Community College.

Under the laws of Montana the Board of Regents of Higher Education are vested with the general supervision of the college. The Board of Trustees of Miles Community College oversees the operation of the college. The college president is responsible for the immediate direction, management and control of the institution.

Miles Community College has the authority to grant Associate in Arts and Associate in Applied Science degrees for completion of programs of 90 hours of course work. The college also awards certificates of satisfactory completion of programs of fewer than 90 credit hours.

The college enrollment is over 250 full-time students and 650 part-time students.

The primary sources of revenue to operate the College come from the State's general fund appropriation and the district mill levies. Revenue is also generated from student tuition, fees and auxiliary enterprise operations.

Accounting System

As noted in the prior audit report, the College's accounting system is inadequate. The system does not conform to the fund accounting system recommended by the American Council on Education and the American Institute of Certified Public Accountants. The College has made little progress in converting to fund accounting whereby resources for various purposes are classified for accounting and reporting purposes in accordance with activities or objectives as specified by appropriate parties.

Under the present accounting system it is very difficult to prepare financial statements of the College as a whole. It becomes even more difficult when one attempts to prepare the financial statements in accordance with the recommended reporting procedures. Accordingly, the College does not prepare financial statements.

The College uses the cash basis for recording receipts and expenditures. Generally accepted accounting principles require that the accounts should be maintained on the accrual basis of accounting. Generally, revenues should be accounted for when earned rather than when received and expenses should be recorded when the materials or services are received rather than when the funds are disbursed. In addition, non-cash items such as fee waivers should be accounted for and

reported as revenue and expenditures.

Some of the major problems to be resolved are (1) the conversion to a double entry bookkeeping system for the general or current unrestricted fund; (2) the establishment of revenue and expenditure accounts for the funds presently included in auxiliary funds; (3) a determination as to which funds the present accounts are to be included; (4) the adoption of a unified general ledger; and (5) the recognition of receivables and payables in the general ledger.

From discussions with the College, it appears that outside assistance is needed in making the necessary changes. Management believes that with this assistance the College can quickly and effectively implement a fund accounting system.

Recommendation

We recommend the College:

(1) Implement the fund accounting system recommended by the American Council on Education and the American Institute of Certified Public Accountants.

(2) Use the accrual basis of accounting, including recognition of fee waivers.

(3) Prepare financial statements at least annually.

(4) Seek outside assistance in establishing a fund accounting system.

College Operating Budget

At the June 19, 1978 Board of Trustee's meeting permission was granted to the College to transfer budgeted amounts between line items as needed as long as the total budget authority was not exceeded. This action obviated the entire budget process. Accordingly, many expense categories exceeded the original budgeted amounts.

The primary benefit of an itemized or departmental budget is the control function. The Board of Trustees should use this type of control in governing the College's operations. Typically, any budget will require subsequent amendments allowing for the transfer of spending authority between line items. To retain control, these amendments should be specific and be approved by the Trustees prior to actual expenditure of funds.

Recommendation

We recommend the Board of Trustees:

(1) Utilize budget amendments for the transfer of budgeted amounts between line items of the budget.

(2) Approve all budget amendments prior to actual expenditure of the funds.

Payroll

Internal Control and Processing

During the academic term the College has a monthly payroll of approximately 80 full time and part-time employees. All payroll is processed manually and requires a considerable amount of time by at least one business office employee.

We noted certain weaknesses in the internal control of payroll processing. These weaknesses result from the concentration of payroll duties in one person. This person prepares the payroll, including the warrants, distributes the warrants, and is one of the authorized warrant signers. No other responsible College Offical periodically reviews the payroll register.

There are benefits to processing a payroll of this size on electronic data processing equipment. The major benefits would be to strengthen internal control by separating payroll processing duties and improving accuracy. Another benefit would be to relieve the Comptroller from routine payroll preparation, thereby providing more time for other responsibilities such as developing needed improvements in the College's accounting system.

Recommendation

We recommend the following:

(1) Warrants should not be distributed by the same person who prepares the payroll.

(2) The President of the College should periodically review the payroll register.

(3) The College should consider using electronic data processing equipment for payroll processing.

Documentation for Support of Wages Paid

The following are weaknesses in the documentation supporting wages paid:

(1) Employee time sheets were not always signed by the employee's supervisor.

(2) Written contracts for night instructors were not prepared for winter and spring quarters.

Recommendation

We recommend the following:

(1) Payroll procedures should include controls to insure that time sheets are complete before the payroll is processed.

(2) The College should require written employment contracts for all College personnel.

Preparation of Payroll Warrants

If an instructor so requests, the College will prepare payroll warrants on a twelve month basis even though the term of their employment contract is for the normal nine month school term. The three extra warrants are held by the College and distributed to the instructor upon request during June, July, and August. This practice of delaying the distribution of payroll warrants weakens internal control by increasing exposure to loss and unnecessarily increases the College's responsibility for them.

Recommendation

The College should discontinue the practice of holding the aforementioned payroll warrants. All payroll warrants should be distributed concurrently with their preparation.

Bookstore

The Bookstore is operated by one employee who acts as cashier, prepares purchase orders, maintains perpetual inventory records and takes a quarterly physical inventory. The College does not maintain a general ledger account for the Bookstore inventory nor does the Business Office supervise the physical inventory.

The Bookstore manager has authority as to the quantity and type of goods to be purchased. Books are primarily purchased by reference to quantities suggested by the instructors. For example, for Spring Quarter 1978, based upon information furnished, twenty-five sets of electronics books were ordered when in fact only seven students enrolled for the course. The unused sets remain in inventory.

The Bookstore inventory at June 30, 1978 was $21,421 and at June 30, 1977 was $14,770, an increase of $6,651. Sales for the year ended June 30, 1978 were $41,777. Since inventory turn-over is less than 2 times per annum, it appears the College is maintaining excessive inventory for the Bookstore.

Student who have a rodeo or basketball scholarship are permitted free use of textbooks. The College requires a $25 student deposit. The Bookstore manager maintains a listing of books on loan to students. If the books are not returned, the student's deposit is forfeited. The amount of student financial aid resulting from this procedure cannot be determined from present Bookstore records. Accordingly, Bookstore profits and student financial aid amounts are both understated. In an operation the size of the Bookstore, periodic comparisons of gross profit percentages to prior period percentages is a vital element of internal control. This comparison, to be effective, requires accurate accounting for sales, purchases, and inventories. The practice followed, as outlined above, should be accounted for if accurate gross profit percentages are to be computed.

Recommendation

We recommend the following:

(1) Business Office personnel should supervise and coordinate the

taking of physical inventories of the Bookstore.

(2) The College should maintain the inventory in a general ledger control account.

(3) The Bookstore operation should be reviewed in some detail by the administration and closer supervision is needed over the Bookstore operations, particularily in the area of the purchase and return of books.

(4) Student aid in the form of free use of textbooks should be accounted for at fair market values or the practice should be discontinued.

Student Loans

The College participates in the National Direct Student (NDSL) and Nursing Loan (NSL) Programs whereby the Federal government provides approximately 90% of the funds to be loaned to the students. It is the responsibility of the College to monitor the loan funds and follow up on delinquent accounts.

The total amount of scheduled loan payments delinquent as a percentage of total student loans receivable in repayment status for the three most recent years are as follows:

	Percentage	
Fiscal Year Ended June 30,	NSL	NDSL
1976	15%	13%
1977	15	19
1978	28	28

As illustrated above the loan delinquency rate is increasing. The federal funding for these programs may soon be in jeopardy if the College does not implement collection procedures in an attempt to reduce the delinquent accounts.

Students receiving student loan advances are required to sign promissory notes. Promissory notes for the nursing student loan program could not be located for advances made during the year ended June 30, 1977. Without the notes as evidence of the students' debt, the repayment of the loans could be in jeopardy.

Recommendation

We recommend the following:

(1) The College give more attention to the delinquent loan accounts by pursuing effective collection procedures.

(2) The College make a concerted effort to locate the missing notes and establish procedures to minimize the risk of loss of note files.

Property, Plant and Equipment

Certain deficiencies in property control noted in the prior audit report are being corrected. The College is now placing identification number decals on the equipment. In December 1977 the College began taking a physical inventory which identifies assets by location. This inventory has not yet been completed nor does it include historical cost data.

The College does not have ledger accounting control over its property, plant and equipment. An investment in plant fund is not maintained for past or present acquisitions. In establishing accounting control the basis of valuation for assets purchased or constructed is cost; for assets acquired by gift, it is fair market value at the date of gift. In the absence of historical cost records, the assets may be stated at historically based appraised values.

Recommendation

We recommend the following:

(1) The College should complete the physical inventory of property began in December 1977.

(2) The physical inventory listing should include cost or other valuation for assets.

(3) The Board of Trustees should adopt a minimum capitalization policy.

Cash

Internal Control

The following internal control weaknesses were noted:

(1) J. L. Graham left the College approximately five years ago. The signature authorization card on file at the bank shows that he is still an authorized check signer.

(2) The Custer County Treasurer does not have a list of the authorized warrant signers.

Recommendation

We recommend the following:

(1) The banks be immediately notified when check signers leave the College or are otherwise no longer authorized to sign the checks.

(2) The Custer County Treasurer should be supplied with a list of the authorized warrant signers and be notified when changes occur.

Cash in Banks

The College maintains checking accounts with three commercial banks. These accounts are being used for financial aid programs, auxiliary enterprises, agency funds, tuition and student fees. Section 75-8133, R.C.M. 1947, requires that "Community college district moneys shall be deposited with the county treasurer of the county where the community college is located or with other depositories approved by the regents." The prior audit report for the fiscal year ended June 30, 1976 stated that the College does not have legal authority for maintaining bank accounts outside the county treasury. The report made reference to an opinion by the deputy county attorney of Dawson County. The College was unable to locate documentation showing approval of the outside bank accounts by the Board of Regents.

Recommendation

The College should either deposit all its funds with the County Treasurer or obtain authority from the Board of Regents to maintain certain funds in commercial bank accounts as authorized by statute.

Investment of College Funds

Excess College funds held by the County Treasurer were invested in certificates of deposit with banks yielding returns varying between 5.5% and 6.05% per annum. The State of Montana Board of Investments has established a short-term investment pool (STIP) which is available to the College. The College may be able to increase its investment earnings by utilizing STIP. During the fiscal year ended June 30, 1978 investments in STIP yielded approximately 7.15%.

Recommendation

We recommend the College consider utilizing the State Board of Investments as well as using certificates of deposit for investment of its excess cash.

Cash Receipts and Revenue

Internal Control

The following internal control weaknesses were noted during our tests of cash receipts:

(1) A restrictive endorsement is not placed on checks as soon as they are received.

(2) The Business Office does not compare food service cash register tapes with actual cash deposits.

Recommendation

We recommend the following:

(1) All checks should be restrictively endorsed upon receipt.

(2) Business Office employees should periodically compare the food service cash register tapes to the actual cash deposits.

Cash Disbursements and Purchases

Internal Control

Under present procedures, signatures of authorized personnel on checks or warrants are not necessarily an effective control over cash disbursements because those authorized to sign do not always review the supporting documents.

Recommendation

We recommend both authorized signers review the vendor invoices, purchase orders, receiving reports, etc. at the time the checks or warrants are signed.

Filing System

Presently, purchase orders, requisition forms, receiving reports, and vendor invoices are filed in different locations. Purchase orders and receiving reports are filed numerically and the invoices and requisition forms are filed alphabetically.

Recommendation

We recommend that the purchase orders, requistion forms, and receiving reports be attached to the vendor's invoices and filed alphabetically.

Supporting Evidence

Some purchases were not properly supported with a purchase order or receiving report. Receiving reports were not always signed and dated. The purchase order and receiving report are evidence to the Business Office that the purchase was approved by appropriate personnel and the merchandise was received.

Recommendation

We recommend the following:

(1) Purchase orders be required for all purchases.

(2) Receiving reports be required for receipt of all materials and be signed and dated by the person receiving the merchandise.

Student Tuition

We noted during our tests of cash receipts that there is not sufficient documentation to determine whether a student is an "in-district" or "out-of-district" resident. We found some instances where the student was charged in-district fees but the address on the student's application form was out-of-district.

The College follows the procedure of separating registration cards for students that make only partial payment of their tuition at time of registration. A reminder note is usually placed in the student's mail box if the balance is not paid shortly after registration. There is no general ledger control over this type of receivable.

Recommendation

We recommend the following:

(1) The College should improve documentation to determine student tuition.

(2) The College should record unpaid tuition as student accounts receivable in the College's accounting system. All tuition income should be recognized at the time of registration. Individual ledger cards should be maintained to support the accounts receivable control account.

Employee Travel

Employees periodically receive advances for College related travel. The College does not maintain detailed subsidiary ledgers to support the travel advance general ledger control account.

Recommendation

The College should maintain subsidiary ledger cards for travel advances. The detail should be periodically reconciled to the general ledger control account.

Employee Leave

Title 59, Chapter 10, R.C.M. 1947, contains the statutory provisions relating to vacation and sick leave. Non-teaching school district employees are entitled to sick leave benefits under Section 59-1008, R.C.M. 1947. It is our opinion that they also apply to non-teaching community college district personnel. Currently, the College policy differs from State policy. College policy permits each full-time employee to accumulate a total of thirty (30) days of sick leave and a maximum of one year's vacation. Montana law permits employees to accumulate unlimited sick leave and two (2) times their annual vacation days earned.

Recommendation

We recommend the College comply with the vacation and sick leave laws contained in Title 59, Chapter 10, R.C.M. 1947.

Prior Audit Findings

As part of our examination, we reviewed the recommendations by the Legislative Auditor in the audit report for the fiscal year ended June 30, 1976. Except for the following comments the College appears to have complied with all recommendations or circumstances have changed to make the recommendations inapplicable.

College Recordkeeping

Recommendation: The Board of Regents should establish a uniform community college recordkeeping system in accordance with the fund accounting system recommended by the ACE. The College should establish and maintain a general ledger which includes all college funds.

Finding: The College has not changed its accounting system nor has it established a general ledger which includes all college funds. See comments at page 2.

Accrual Accounting

Recommendation: We recommend that the College utilize the accrual basis of accounting.

Finding: The College still maintains its records on the cash basis of accounting. See comment at page 2.

Cash

Recommendation: We recommend that the College deposit all College money with the Custer County Treasurer.

Finding: The College has not yet transferred the money in the outside bank accounts to the county treasury. See comment at page 8.

Cash Disbursements

Recommendation: We recommend that the College:

(1) Require receiving reports for all materials.

(2) Require invoices or supporting documentation for all payments.

(3) Develop a filing system which allows quick retrieval of documents.

Finding: These continue to be a problem. See comments at page 9.

Student Tuition

Recommendation: We recommend that the College document procedures used to determine a student's residency.

Finding: This continues to be a problem. See comment at page 10.

Investments

Recommendation: We recommend that the College consider establishing an investment program with the State Board of Investments to provide greater flexibility in its investment program.

Finding: The College continued during the current year to invest its excess cash only in certificates of deposit with local banks. See comment at page 8.

Payroll

Recommendation: We recommend that the College:

(1) Improve internal controls over payroll.

(2) Require employment contracts for all college personnel.

Finding: This continues to be a problem. See comments at page 4.

Employee Leave

Recommendation: We recommend that the College follow statutory guidelines concerning employee leave.

Finding: This continues to be a problem. See comment at page 10.

Auxiliary Enterprises

Recommendation: The Business Office employees should compare foodstore cash register tapes to actual cash deposits.

Finding: This continues to be a problem. See comment at page 8.

Plant, Property and Equipment

Recommendation: We recommend that the College prepare accounting records which reflect the value of the College's plant, property and equipment.

Finding: This continues to be a problem. See comment at page 7.

Final Comments

We have reviewed the comments and recommendations contained in this report with officials of Miles Community College.

We wish to express our appreciation to those officials and their staff for the cooperation and assistance we received from them during our audit.

August 28, 1978

FINANCIAL STATEMENTS

MILES COMMUNITY COLLEGE
Balance Sheet
June 30, 1978

ASSETS

Current Funds:	
Unrestricted:	
Cash	$ 35,866
Investments (Note 2)	90,000
Accounts receivable	1,363
Due from other funds	453
Inventories	21,421
Prepaid expenses	8,410
Total unrestricted	157,513
Restricted:	
Cash	44,429
Investments (Note 2)	50,000
Accounts receivable	8,418
Due from other funds	20,000
Total restricted	122,847
Total current funds	280,360
Loan Funds:	
Cash	38,312
Student loans receivable (Note 3)	82,136
Total loan funds	120,448

See Notes to Financial Statements.

LIABILITIES AND FUND BALANCES

Current Funds:	
Unrestricted:	
Accounts payable and accrued liabilities	$ 39,854
Due to other funds	36,120
Fund balance	81,539
Total unrestricted	157,513
Restricted:	
Accounts payable and accrued liabilities	535
Fund balance	122,312
Total restricted	122,847
Total current funds	280,360
Loan Funds:	
Due to other funds	453
Fund Balances:	
National Direct and Nursing Student Loan Program:	
Federal grants refundable	111,363
College contribution - restricted	12,361
Federal reimbursements - restricted	76
Non-capital deficit - unrestricted	(3,805)
Total fund balances	119,995
Total loan funds	120,448

See Notes to Financial Statements.

MILES COMMUNITY COLLEGE
Balance Sheet - continued
June 30, 1978

ASSETS

Plant Funds:	
Unexpended:	
Cash	$ 2,002
Grants receivable	158,557
Total	160,559
Renewal and Replacement:	
Cash	19,221
Due from other funds	3,360
Total	22,581
Retirement of Indebtedness:	
Cash	17,292
Due from other funds	12,760
Total	30,052
Investment in Plant (Note 5):	
Land	90,578
Construction in progress (Note 6)	438,127
Buildings	867,497
Equipment	386,041
Total investment in plant	1,782,243
Total plant funds	1,995,435
Agency Funds:	
Cash	11,825
Total agency funds	11,825

See Notes to Financial Statements.

LIABILITIES AND FUND BALANCES

Plant Funds:	
Unexpended:	
Construction contract payable	$ 156,976
Fund balance	3,583
Total	160,559
Renewal and Replacement:	
Fund balance	22,581
Retirement of Indebtedness:	
Fund balance	30,052
Investment in Plant:	
Bonds and notes payable (Note 4)	338,400
Fund balance	1,443,843
Total investment in plant	1,782,243
Total plant funds	1,995,435
Agency Funds:	
Accounts payable	1,513
Deposits held in custody for others	10,312
Total agency funds	11,825

See Notes to Financial Statements.

MILES COMMUNITY COLLEGE
Statement of Changes in Fund Balances
For the Year Ended June 30, 1978

	CURRENT FUNDS	
	UNRESTRICTED	RESTRICTED
Revenues and Other Additions:		
Educational and general revenues	$ 911,440	
Auxiliary enterprises revenues	86,132	
District levies and fees - restricted		$ 5,549
Government grants and contracts - restricted		144,227
Other grants, contracts and donations - restricted		5,852
Other sources - restricted		1,558
Interest on loans receivable		
U.S. government advances and reimbursements		
Expended for plant facilities (including $38,257 charged to current funds expenditures)		
Retirement of indebtedness		
Total revenues and other additions	997,572	157,186
Expenditures and Other Deductions:		
Educational and general expenditures	947,302	118,919
Auxiliary enterprises expenditures	79,302	
Indirect costs recovered		1,526
Loan cancellations and write-offs		
Collection costs		
Expended for plant facilities		
Retirement of indebtedness		
Interest on indebtedness		
Total expenditures and other deductions	1,026,604	120,445
Transfers Among Funds - Additions (Deductions):		
Mandatory:		
Loan fund matching grant	(1,583)	
Total transfers	(1,583)	
Net increase (decrease) for the year	(30,615)	36,741
Fund balance July 1, 1977	112,154	85,571
Fund balance June 30, 1978	81,539	122,312

See Notes to Financial Statements.

LOAN FUNDS	PLANT FUNDS			
	Unexpended	Renewal and Replacement	Retirement of Indebtedness	Investment in Plant
		$ 12,025	$ 34,833	
	$ 441,710			
$ 771				
14,436				
				$ 476,384
				23,600
15,207	441,710	12,025	34,833	499,984
453				
1,705				
25				
	438,127			
			23,600	
			11,321	
2,183	438,127		34,921	
1,583				
1,583				
14,607	3,583	12,025	(88)	499,984
105,388		10,556	30,140	943,859
119,995	3,583	22,581	30,052	1,443,843

See Notes to Financial Statements.

MILES COMMUNITY COLLEGE

Statement of Current Funds Revenues, Expenditures, and Other Changes

For the Year Ended June 30, 1978

	Unrestricted	Restricted	Total
Revenues:			
Educational and General:			
Tuition and fees	$ 104,611		$ 104,611
State governmental support	485,250		485,250
District levies	310,373	$ 5,549	315,922
Government grants and contracts		105,960	105,960
Other gifts, grants and contracts		5,852	5,852
Indirect costs recovered	1,979		1,979
Other sources	9,227	1,558	10,785
Total educational and general	911,440	118,919	1,030,359
Auxiliary Enterprises	86,132		86,132
Total revenues	997,572	118,919	1,116,491
Expenditures and Mandatory Transfers:			
Educational and General:			
Instructional services	509,090	39,986	549,076
Public service	43,729		43,729
Academic support	50,319	7,505	57,824
Student services	101,908	6,695	108,603
Institutional support	107,354	6,165	113,519
Operation and maintenance of plant	97,844	2,946	100,790
Institutional services	20,756		20,756
Student aid	16,302	55,622	71,924
Educational and general expenditures	947,302	118,919	1,066,221
Mandatory transfers for loan fund matching grant	1,583		1,583
Total educational and general	948,885	118,919	1,067,804
Auxiliary Enterprises expenditures	79,302		79,302
Total expenditures and mandatory transfers	1,028,187	118,919	1,147,106

See Notes to Financial Statements.

MILES COMMUNITY COLLEGE
Statment of Current Funds Revenues, Expenditures, and Other Changes - continued
For the Year Ended June 30, 1978

	Unrestricted	Restricted	Total
Other Transfers and Additions:			
Excess of restricted receipts over transfers to revenues		$ 36,741	$ 36,741
Total other transfers and additions		36,741	36,741
Net increase (decrease) in fund balances	$ (30,615)	36,741	36,741

See Notes to Financial Statements.

MILES COMMUNITY COLLEGE
Notes to Financial Statements
June 30, 1978

Note 1 - Summary of Significant Accounting Policies

Accrual Basis

The financial statements of Miles Community College have been prepared generally on the accrual basis except for depreciation accounting as explained in Note 5 to the financial statements. The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenses. The financial statements are not comparable in certain respects with those issued in prior years due to revisions made to adhere with appropriate accounting principles and reporting guidelines.

To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of normal replacement of movable equipment and library books; (2) mandatory transfers, in the case of required provisions for debt amortization and interest and equipment renewal and replacement; and (3) as transfers of a nonmandatory nature for all other cases.

Accounting System

The College maintains basically four types of funds: (1) County Treasurer funds; (2) Auxiliary funds; (3) financial aid program funds; and (4) loan funds. These funds do not conform to the fund accounting system recommended by the American Council on Education and the American Institute of Certified Public Accountants. In addition, single entry bookkeeping is used to record transactions in the County Treasurer funds; a general ledger is not maintained for these funds. Adjustments and reclassifications have been made in order that the financial statements could be presented in accordance with generally accepted accounting principles.

For financial statement purposes:

All gains and losses arising from sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund which owned such assets. Ordinary income derived from investments, receivables, and the like, is accounted for in the fund owning such assets.

All other unrestricted revenue is accounted for in the unrestricted current fund. Restricted gifts, grants, appropriations, and other restricted resources are accounted for in the appropriate restricted funds. Restricted current funds are reported as revenues and expenditures when expended for current operating purposes.

Inventories

Inventories consist of goods held for resale in the College's bookstore. The inventory is valued at the lower of cost or market, primarily on a first-in, first-out basis.

Other Significant Accounting Policies

Other significant accounting policies are set forth in the financial statements and the notes thereto.

Note 2 - Investments

All investments are recorded at cost. Investments owned by the funds at June 30, 1978 are as follows:

Current unrestricted funds	$ 90,000
Current restricted funds	50,000
Total	140,000

Investment income is generally recorded when received. The above investments consist of certificates of deposit bearing interest at 6.05% per annum and maturing August 1, 1978.

Note 3 - Allowance for Doubtful Accounts - Loan Funds

No provision for uncollectible National Direct and Nursing Student Loans have been provided for in the accompanying financial statements. The following statistics were provided to the Department of Health, Education, and Welfare in the annual report of the financial aid programs:

Student loans receivable	$ 82,124
Deduct total value of loans not in repayment status (grace period, armed forces, Peace Corps, Vista, student status, hardship)	35,112
Total student loans receivable in repayment status	47,012
Total amount of scheduled loan payments delinquent	$ 13,129
Percentage of principal payments delinquent ($13,129 ÷ $47,012)	28%

The College follows accounting practices for the National Direct and Nursing Student Loan Fund that are in accordance with government regulations. Those regulations do not provide for recognition of interest receivable or for establishment of allowances for uncollectible loans receivable or future loan cancellations by the government. To that extent the portion of the financial statements relating to loan funds are at variance with generally accepted accounting principles. However, 90% of any interest receivable or uncollectible loans and 100% of government cancellations would add to or reduce the U.S. Government's portion of the Fund balance and, therefore, would not have a significant effect on the College's over-all financial position.

Note 4 - Bonds and Notes Payable

At June 30, 1978, the College had a total of $140,000 in bonds payable and $198,400 in notes payable. The proceeds of these liabilities were used to finance campus buildings.

The details of the obligations are as follows:

Bonds

Maturity Date	Interest Rate	Amount
1979	3.20 %	$ 20,000
1980-82	3.25 %	60,000
1983-85	3.20 %	60,000
Totals		140,000

District levies are used to make principal and interest payments.

Note Payable

The note is payable to the United States of America through the Secretary of Housing and Urban Development. The note bears an annual interest rate of 3%. Principal payments range between $1,741 and $4,500 and are due semi-annually. Final payment is due July 1, 2012. Student fees are used to make principal and interest payments.

In the June 30, 1976 College financial statements an additional liability was recognized for the lease-purchase of the vocational education building from the Miles Community College Endowment Foundation. During October 1977, the lease terms were amended; consequently, the lease no longer qualifies as a capitalizable lease. Accordingly, buildings and beginning fund balance in the investment in plant fund were adjusted.

The College records interest expense on the above liabilities when paid. The recognition of accrued interest expense would not have a material effect on the College's overall financial position.

Note 5 - Investment in Plant

Investment in plant represents an incomplete accumulation of the cost of purchased assets. Accounting recognition is not given to plant fund assets received through gifts. Depreciation on physical plant and equipment is not recorded.

Note 6 - Coal Board Grant

On May 20, 1977, the Montana Coal Board awarded the College a grant not to exceed $1,529,663 to be used for the construction of a library and a vocational training building. In March 1978, a contract of $1,358,920 was awarded for the construction of the buildings. The difference between the grant and the construction contract will be used primarily for architect fees and furniture and equipment in the new buildings. At June 30, 1978, the College had disbursed $438,127 in connection with the buildings' construction.

Note 7 - Retirement Programs

Retirement benefits are provided for the academic staff through the Montana Teachers' Retirement System (TRS) and non-academic staff through the Montana Public Employees' Retirement System (PERS). Both plans are operated by the State of Montana and membership is compulsory for the respective classes of employees. Contributions for participants and the College are based on a percentage of the participant's salary.

Defined benefits under both plans are based on years of service and final average salary of the participant. The actuarial present value of vested benefits and the amount, if any, of unfunded past service costs for employees covered under the plans has not been determined. The College's share of the cost of these plans for the year ended June 30, 1978 was $38,440.

Note 8 - Commitments and Contingent Liabilities

The value of unused vacation and sick leave accumulated by employees is not recorded as a liability. Each full-time employee of the College can accumulate sick leave up to maximum of thirty (30) working days. Upon termination from service, employees are compensated for unused sick leave on the basis of one-fourth (1/4) the accumulated total. Full time support personnel and administrators are allowed to accumulate no more than one years annual vacation leave. Any unused annual leave not to exceed one years accumulated total will be compensated for when an employee's service is terminated.

AGENCY REPLIES

MILES COMMUNITY COLLEGE

2715 Dickinson

MILES CITY, MONTANA 59301

September 29, 1978

Janke and Van Delinder
720 N. 30th St.
Billings, MT 59101

Following is our response to the statements and recommendations which you have included in the audit of Miles Community College:

General
Concur

It might be meaningful to those reviewing your audit to include: "The annualized full time equivalent is approximately 400." This is in the fourth paragraph on page 1 under General.

Accounting System
Concur

College Operating Budget
Concur

Payroll
Concur

Bookstore
Concur

Student Loans
Concur

Property Plant & Equipment
Concur

Cash
Concur

Cash in Banks
Concur

Investment of College Funds

Concur with some reservations due to local support of the College through scholarships and gifts from local lending institutions. However, with state appropriations received monthly beginning in 1979-1980, there probably will be very limited funds available to invest.

Cash Receipts and Revenue

Concur

Cash Disbursements & Purchases

Concur

Student Tuition

Concur

Employee Travel

Concur

Employee Leave

Do not agree. Montana statute 75-8117.1 paragraph (8) Powers and duties of Trustees provides for the local Board to hire employees and set the terms of their employment including salary and fringe benefits. Until such time as the legislature mandates that Community College employees are state employees, the Board of Trustees will continue to adopt its own salary scale, fringe benefits and working conditions when not inconsistent with state and federal laws.

Prior Audit Findings

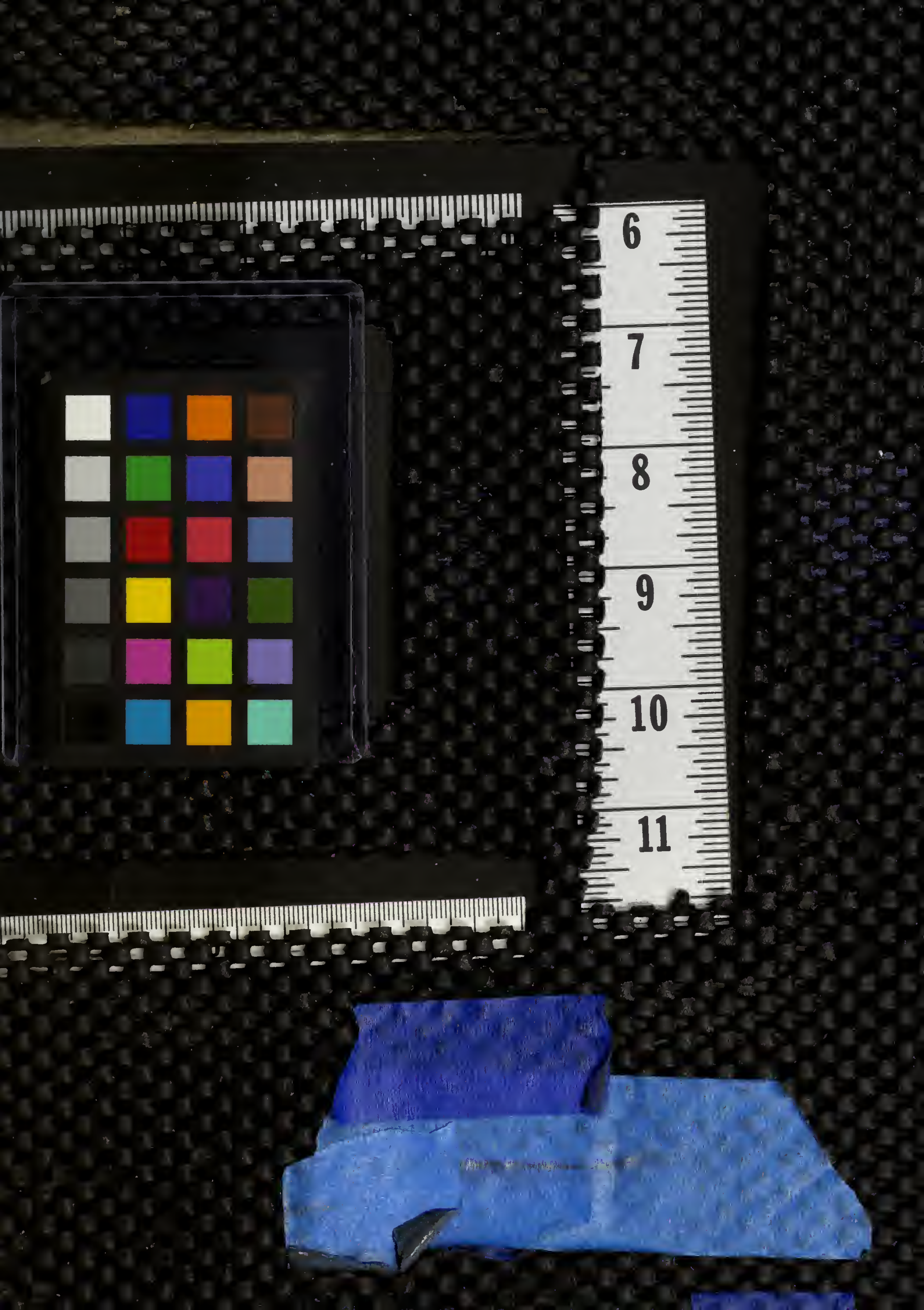
Concur

Respectfully submitted,

Vernon Kailey

Vernon R. Kailey
President

VRK:db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